



Robert L. Ehrlich, Jr.
Governor

Frederick G. Davis
Director

February 3, 2006

The Honorable James E. DeGrange, Sr., Chairman
Senate Subcommittee on Public Safety,
Transportation, and the Environment
4-A Miller Senate Office Building
Annapolis, MD 21401-1991

Re: MEA D13A0101 – Budget Hearing Testimony

Dear Chairman DeGrange:

My name is Fred Davis, the new Director of the Maryland Energy Administration. It is my pleasure to appear before you today. This is my first opportunity to testify on the MEA budget before members of the Assembly. I have been on the job for only a few weeks, but I am excited about the mission of MEA and am eager to carry out our mission --- especially as we face the significant energy challenges that confront the State of Maryland and the Nation.

In 2005, MEA worked diligently to promote energy efficiency and renewable energy in the State of Maryland. Over the last year, two of the biggest issues have been the supply volatility and high price of gasoline, natural gas and heating oil. While the hurricanes of the recent past have exacerbated these conditions, worldwide demands are expected to place increasing constraints on supplies, driving up prices. Now is a critical time to increase the State's energy efficiency and diversify the State's portfolio of energy resources through the development of alternative fuels and renewable energy. A diverse energy portfolio will help mitigate the impact of price spikes on any one fuel.

Over the past year, the Energy Administration and Governor Robert L. Ehrlich, Jr. earned the U.S. Environmental Protection Agency's award for Excellence in Energy Efficiency and Environmental Education for our Energy Star education efforts.

We also fully allocated \$25 million through the Green Building Tax Credit Program. The eighteen projects cover eight counties and the City of Baltimore. Each of the buildings will demonstrate high-energy efficiency technologies that reduce energy consumption by a minimum of 35 percent.

We are excited that the Governor's proposed budget includes a \$2.5 million enhancement for the State's solar grant program, which has been a huge success. We currently have a list of people waiting to receive grants through the program.

We are also looking forward to new ways to increase energy efficiency in the residential sector. The Governor has proposed a \$500 home energy efficiency tax credit to any resident who upgrades their heating system to the Energy Star standard. We believe the best way to help Marylanders with the rising costs of home heating fuels is to make their homes more energy efficient.

Thank you for considering my comments. Please do not hesitate to contact me if you have any questions.

Sincerely,

Frederick G. Davis, Director
Maryland Energy Administration

Attachments

Maryland Energy Administration
FY 2007 Operating Budget Analysis Response

MEA should be prepared to discuss the current status of the State's energy emergency preparedness, with a focus on current program priorities and needs as well as the potential need for additional funds to ensure adequate preparedness.

The Maryland Energy Administration works in full cooperation with the Maryland Emergency Management Agency to develop plans to respond to energy emergencies.

MEA currently retains multiple petroleum databases that include both infrastructure and products. Thru our SHOPP (State Heating Oil, Propane and Petroleum) survey, we obtain a supply picture of heating oil and propane for the State. MEA also maintains a comprehensive database of all retail gas stations and terminals in Maryland.

We are currently working with the industry to expedite data collection during a disruption. Supply data is critical and time sensitive in emergency situations. Improving supply collection methods is our top priority.

In 2007 the Motor Fuels Tax Division of the Comptroller's Office will buy an electronic fuel tracking system that is the best and most efficient way to obtain critical data. This system will provide continuous information in real time. Because MEA will be utilizing the system, once the system is in place, MEA will be requesting additional funds in future budget years to pay for a portion of the annual maintenance cost.

DLS recommends budget bill language requiring MEA, DGS and DBM to submit a report summarizing the findings and recommendations from the pending EPC program report, and outlining how management and implementation of the State's EPC program may be adjusted in response to these recommendations.

MEA will be happy to provide the information requested in this budget language. The energy performance contracting program is an important State activity and MEA believes that it would be beneficial to inform the legislature of the contents of the report and how our findings may affect the EPC program. We believe that this report will identify opportunities to achieve future energy savings throughout the State.

DGS plans to release an RFP during the winter of 2006 for development of a statewide energy use tracking system.

DLS recommends that MEA brief the committees on the impact that this energy use database may have on its energy programs and policies.

The statewide energy use tracking system is expected to be extremely important as an energy consumption reduction targeting tool and as a verification tool for energy savings improvements. Total energy consumption and per-square-foot analysis helps target the most intensive energy use by agency/facility that would benefit from energy efficiency improvements. Verification of energy savings from investments the State makes to improve energy efficiency is critical to determining the return on those investments and to promote the energy savings and environmental benefits of those activities. It will also be crucial information to assure the State obtains the best value in its energy procurements.

MEA should be prepared to discuss the new performance measurements that it could adopt to provide a more specific indication of how its non-capital programs are impacting State energy efficiency.

For brevity, MEA has included many of its non-capital programs in three Outcomes in Goal 2, Objective 2.2. We will look at ways to report more detail about specific programs in future MFR's. Additionally, MEA will continue its ongoing efforts to enhance the documentation and reporting of its performance of critical goals and objectives.

Proposed Deficiency

MEA should be prepared to discuss the short and long-term budgetary and programmatic impact of appropriating \$7.0 million or 80% of the EORF special funds balance in fiscal 20006. DLS recommends disapproving the \$7.0 million of EORF deficiency request since it could have a detrimental impact on energy programs that benefit the entire State, and there is not an overwhelming need for these special funds at this time.

MEA supports the Governor's Project Heat-Up Initiative as a very worthwhile project and an eligible and appropriate use of EORF funds. Assisting low-income Marylanders with their utility bills is an important responsibility of government.

It is true that using EORF funds for this purpose will mean that they are not available as a future funding source for the State Energy Program and, therefore, continuation will indeed require that additional General Funds be provided to MEA over the next several years. The Governor and DBM have determined, however, that this course of action is preferable to funding the entire FY06 DHR/DHCD deficiency appropriation with General Funds.

Recommended Actions

Reduce funding for the Solar Energy Grant Program from \$2,500,000 to \$500,000.

In each of the past two years the Solar Energy Grant Program has been fully subscribed within four months of the grant opening. Currently, MEA has a list of over 100 residents interested in participating in the Program, as well as dozens who were ineligible in an earlier year but would still like to participate. Each day, MEA gets two to three calls or emails to request information on the Program. We believe that this interest will translate into a very robust Program with significant benefits for Maryland through energy savings, improved air and water quality, and improved local economy with jobs and a major solar manufacturer here in the State. We request that the Governor's budget be approved in full.

Maryland Energy Administration
FY 2007 PAYGO Capital Budget Analysis Response

Issue: MEA loan fund transfer may be problematic.

MEA should be prepared to discuss the status of resolving this audit finding, as well as the potential impact of not being able to transfer funds among the loan programs in the future.

The Office of the Attorney General has issued a formal opinion to MEA on whether we can transfer between the two capital programs. Their finding is that “moneys in the CELP fund may only be spent in accordance within the statute creating that fund; a transfer of funds to the SALP account is not currently authorized by that statute. Thus funds may be transferred from the CELP to the SALP account only if the General Assembly passes a law authorizing such a transfer or expanding the purposes of the CELP funds or if an appropriate budget amendment is approved in accordance with State law.” The impact of this opinion is that when the SALP revenue fund needs additional monies in order for it to remain self-funding, MEA will utilize any available EORF funds first. The next option would be to prepare a budget amendment to request CELP funds be transferred. If a budget amendment is not approved, then our last recourse is to request additional General funds to sustain a workable funding level for this important program.

Issue: State Agency interest in Energy loans increases as energy costs escalate.

MEA should be prepared to discuss why additional SALP funds were not sought for fiscal 2007 in response to increased demand and elaborate on potential programmatic change that could be made to spark more diverse interest in the program.

Requests for SALP loans from agencies have been stable over the last several years, even as energy costs have risen. MEA is prepared to increase the SALP budget, through ‘08 funding or a budget amendment, if funds are available, if there is increased interest in the loan funds. MEA also believes that the State’s energy performance contracting (EPC) program is a more comprehensive mechanism for financing energy efficiency capital improvements.

SALP

MEA should be prepared to discuss why it anticipates a decrease in savings in fiscal 2006 and 2007. Also, MEA should discuss whether, and if so how, SALP has targeted its funds towards State agencies that procure a significant amount of energy.

The decrease in savings from SALP projects in ‘06 and ‘07 stems from very high savings in ‘05 from a project at UMCP with a very short payback juxtaposed with a much longer-term payback project at the Department of the Military in ‘06. Also ‘05 had 50 percent more in project costs so there would be a proportional increase in savings. A conservative estimate was used for unallocated activity in ‘07.

SALP has provided loans to the largest users of energy in State government. DHMH, DGS, DNR, the Military, DPSC, and the universities have all completed projects funded by SALP.

CELP

Program performance analysis

Since CELP is a relatively significant capital program, DLS recommends that MEA include CELP performance information in its future MFR plans.

For brevity, MEA has included many of its non-capital programs, including CELP in three Outcomes in Goal 2, Objective 2.2. We will look at ways to report more detail about specific programs in future MFR's. Additionally, MEA will continue its ongoing efforts to enhance the documentation and reporting of its performance of critical goals and objectives.

EEEDLP

DLS recommends reducing funds for EEEDLP from \$500,000 to \$250,000.

MEA believes that one of the key drivers of economic development and economic sustainability is affordable and reliable energy. MEA is developing a portfolio of tools to provide technical and financial assistance to all sectors. Small businesses are a key component of Maryland's economy and for them to remain viable MEA believes it is imperative that we have tools to support them.

MEA has requested \$500,000 to fund a program, not just for a specific project. MEA is working with DBED and the University of Maryland College Park Center for Energy and Environmental Engineering to find commercial and industrial entities that can improve their competitiveness through energy efficiency. Fifteen companies have received free energy assessments from MEA's Industries of the Future Program and have expressed interest in a below market-rate loan to fund improvements. MEA recommends full funding of EEEDLP.